

CIA/OER/S-06647-74 ARGENTINA: ECONOMIC PROSPECTS NOV 74
OVER THE NEXT SEVERAL MONTHS SECRET/NFD 01 OF 01

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Argentina: Economic Prospects Over the Next
Several Months

Economic Policy

1. The ascendency of Gomez Morales as Minister of Economy has generated renewed hope for improved government financial management. The government, however, continues to rely heavily on the support of organized labor and will be unable to resist renewed demands for wage increases. At the same time, Morales will be forced to pay lip service to the Social Pact until its expiration in mid-1975 and will have to hold the line on price hikes generally, limiting increases to those sectors most pressed by higher costs and poor profits. Morales' biggest challenge will be the curtailment of public sector spending. He recognises that government deficits are the major source of inflationary pressures in Argentina and has called for a campaign of public and private austerity. Nevertheless, vested interests in state enterprises and the bureaucracy will join continuing demands for increased levels of government services that will frustrate most efforts at austerity.

2. Apart from relaxation of some price controls, the most promising change in policy may come in agriculture. The agrarian reform bill is being rewritten and could prove to

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be the key to stimulating increased grain production in years to come. Such a development would ensure continued strength of the external sector and would provide the needed foreign exchange to finance industrial development while covering the nation's heavy external debt burden.

Economic Performance

3. Despite continued financial mismanagement, high consumer demand will generate economic growth of 5-7% per annum. The inflation rate will probably accelerate to around 40%, however, as prices are partly adjusted to higher costs. In the external accounts, continued high grain and sugar prices should offset exchange losses from lower meat and wool exports, while reduced oil consumption and renegotiation of prices for Libyan crude imports should cut the nation's petroleum import bill by some 15% to around \$450 million per annum.

4. Private investment will continue to stagnate in most sectors as wages outstrip prices. While key sectors such as the automotive industry have been given a temporary reprieve from bankruptcy by authorizations of price hikes, many firms will continue to face a bleak future. Excess demand and lack of replacement capital will continue to generate sporadic shortages of consumer and capital goods but major disruptions

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of industrial production are unlikely in the near term. Continued deterioration of the business climate, however, could result in production falloffs during the latter part of 1975 as the low level of investment during the past 18 months begins to be felt. The government would then be forced to choose among (a) complete reversal of economic policy to stimulate industrial recovery; (b) state takeover of key private facilities operating at the brink of insolvency; and (c) acceptance of slowed growth, rising unemployment, and a budding recession.

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29 November 1974

MEMORANDUM FOR: Chief, Latin America
(East) Branch OCI/WH

SUBJECT : OER Contribution to the Update
of Interagency Memorandum,
Argentina: Prospects Over
the Next Several Months

Attached is OER's contribution to the subject memorandum. Questions may be addressed to the author, [REDACTED] x5541.

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[REDACTED]
Latin America Branch
Office of Economic Research

Attachment:
As stated

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